Innovation in the face of change

The real estate market has experienced significant changes in recent times, with many investors seeking innovative strategies to enhance their portfolios.

David Kozlicki, Head of Unified Global Alternatives (UGA) – Real Estate, discusses how the business is responding to these shifts by offering diversified investment opportunities, adaptive solutions and strategic partnerships. By leveraging their global reach and expertise, how does UGA – Real Estate aim for optimal asset control and sustainable growth in a volatile market?

Why is private markets investing particularly attractive?
Private markets offer diversification, lower volatility, and exposure to structures that impact the risk/return equation. In today's environment, investors seek to optimize allocations for appreciation and income, while mitigating volatility and issues such as climate change. While institutional investors have long embraced private markets allocations, these opportunities are becoming increasingly appealing to non-institutional investors due to their higher return-potential, lower correlation with public equity markets, inflation protection and access to otherwise inaccessible markets and strategies.

Private markets provide the ability to trade liquidity for higher returns at comparable risk levels, while granting investors greater asset control and the opportunity to benefit from skill and illiquidity premiums. Private markets also serve as a gateway to sustainable investments in high-growth sectors, aligning with the increasing focus on sustainability for many investors.

Why is Unified Global Alternatives a strong partner for accessing private markets?
In January 2025, we combined our manager selection franchises from Global Wealth Management and Asset Management to create UGA. This integration leverages our expertise in sourcing, monitoring and managing investments, while allowing flexible collaboration with third-party alternatives managers to strengthen partnerships and deliver innovative solutions for clients.

UGA comprises five investment verticals: Real Estate, Infrastructure, Private Credit, Private Equity, Hedge Funds, and a Multi-Asset solutions business for clients seeking to leading GPs across asset classes. Managing approximately USD 295 billion in invested assets[2] with its global footprint and long-standing relationships providing access to capacity-constrained managers, often unavailable to individual investors. Our scale allows for improved liquidity options and reduced GP fees.

Clients benefit from flexible structuring within our multi-manager solutions and bespoke mandates, including co-investments, SMAs and fund formations. A single, robust due diligence process ensures consistency and institutional-standard reporting, onboarding and after-sales support. With UBS board level support, UGA is expected to be a key growth area as clients diversify into alternatives.

What about domestic and global real estate investing – why have both in a portfolio?
Real estate investors often show a home bias, given its familiarity and local liabilities. But adding international real estate to a predominantly domestic portfolio can offer key benefits.

Firstly, real estate cycles differ across markets, creating diversification benefits and timing opportunities, which can enhance risk-adjusted performance. Secondly, global expansion can enhance liquidity and provide access to sector, market maturity or risk profile that might not be available in an investor's home market. Finally, while some assume going abroad requires higher returns and risk, it may be more prudent to take additional risk in the market they know best, and initially expand into best quality, core global real estate.

Why is UGA – Real Estate well placed to provide access to global real estate?
UGA – Real Estate is proud to be the world's largest manager[1] of indirect real estate, with more than 250 lifetime investments globally[2] spanning all major regions, sectors and risk profiles.

Established in 2007, the group provides clients access to prime assets and GPs in liquid formats. With 50+ investment professionals in 11 markets and an investment committee with 250+ years of experience. We believe our scale – the breadth and quality of deals is likely unparallelled in the market, providing access, enhanced terms and reduced fees.

We offer four main opportunity sets to clients, across formats including co-investments, joint ventures, recapitalizations, fund formations, secondaries and club deals:

- Open-end solutions: Flexible, long-term growth with actively managed vehicles, immediate market access and diversification.
- Closed-end solutions: Illiquidity premium products with customized UBS wrappers and transparent cashflows.
- Structured solutions: Tailored access to exclusive deals with benefits like enhanced transparency, reduced fees, improved liquidity.
- Mandates: Fully customized offerings from discretionary to advisory, including due-diligence, risk monitoring, and ESG analysis.

Regardless of investment format, investors benefit from strong governance, independent risk management committees, dedicated research and ESG specialists, extensive operational support and a growing UGA business supported by the world's largest wealth manager.[1]

What is the current state of the real estate market?
The UBS Chief Investment Office maintains a positive view on real estate returns in 2025, with the sector a key pick for clients. While recovery will likely prove uneven, sectors with tight supply, high rental growth and low capex are likely to rebound quicker than structurally challenged sectors.

Valuations had seen substantial downward adjustments since 4Q22, leading to the worst returns since the GFC, with 2023 a particularly challenging year. 2024 marked recovery, as GDP rose, inflation moderated and a soft landing was achieved. Improved financial conditions and easing monetary policy resulted in the prolonged downturn coming to an end.

Investment volumes may recover slowly as buyers remain cautious, but demand for high-quality assets with stable occupancy should persist. Expected easing in funding costs and progress on deregulation later this year, should help revive transactions. Meanwhile, limited supply and tariff-driven cost increases may restrict future development, challenging new assets but supporting rental growth for existing properties. We expect strategy and sector performance to diverge, however, we favor logistics, data centers and living sectors, where fundamentals look most robust.

Everyone's talking about Tariffs – how will they impact UGA – real estate?

Tariffs – the self-styled 'most beautiful word' by Donald Trump – have sent financial markets on a roller coaster in 2025, creating some of the most volatile conditions in modern times.

Given the constant change, it is becoming increasingly difficult to invest with confidence, with the real estate sector not unaffected. Assuming tariffs exist in some form for some period of time against some countries (though we doubt the penguins of the Heard and McDonald Islands will be able to negotiate a trade deal), shifts to both capital values and tenant demand are likely.

Tariffs are likely to impact trade volumes, whether through pullback or slower growth, posing risks to occupier demand for logistics properties globally. Facilities around transport nodes look most exposed, while those serving end consumers and retailers, appear less at risk. Retaliatory tariffs from other countries could curb trade further. Conversely, US industrial properties and factories may benefit as multinationals look to reshore manufacturing activities to avoid tariffs.

Given the unpredictability of US policy, we believe investing above the noise by concentrating on global long-term fundamentals will prove beneficial. The team has invested throughout the GFC, Eurocrisis, Brexit and COVID-19. We remain confident that a broadly diversified mix of high-quality real estate, with in-demand GPs in areas benefiting from structural tailwinds, is the most appropriate strategy throughout this volatile market phase.

Where are you looking to deploy capital over the next 12 months?

Given the market turbulence, potential pitfalls and liquidity challenges, UGA — Real Estate is taking a highly selective approach to deployment. The team and investment committee deploy only where the deal, sector and GP are of the highest conviction, focusing on assets supported by long-term tailwinds capable of riding out short-term challenges. Leveraging depth and sourcing capabilities, the team looks beyond high-level themes to pick specific deals, offering the greatest opportunity for outperformance.

For example, while the residential sector is an area of interest for many GPs, our team sources in formats/areas of the highest conviction. For example, recent commitments include a US manufactured housing club deal, a UK single family rental fund formation and a co-investment into a development of Spanish for-sale housing. These markets exhibit either the tightest supply/demand characteristics or support a growing demand for the sub-sector.

Likewise, within alternatives, we have invested in a data-center co-investment with high latency aspects, a luxury hospitality repositioning in an underserved market and an Australian residential debt side-car vehicle. UGA — Real Estate's approach at this volatile part of the market cycle, is to remain disciplined, adhere to quality and rely on our global reach to pick the best assets and GPs for the long term.

What is the view of UGA — Real Estate on niche real estate sectors?

Investor appetite for niche real estate sectors has surged in recent years. Their core investment thesis is usually 'investing in the future', riding on favorable megatrends in demographics, digitalization and post-pandemic consumer behavior shifts. For example, data centers are high in demand as reliance on digital tools grows. Other niche sectors receiving more attention include life sciences, cold and self-storage and various residential sub-types.

Investing in niche sectors typically carries greater potential risks relating to exit liquidity, operations, regulations and small occupier markets, with common development exposure due to their nascency. Nonetheless, occupier demand outlook holds promise amidst structural tailwinds and investors are typically compensated with higher expected returns.

We are actively enhancing exposure to niche sectors. As a first mover, the team, uses differentiated formats to provide access on previously unavailable terms. This advantage is expected to deliver strong risk-adjusted returns and improved liquidity post the hold period as the wider market catches up. In recent times, we have invested in – or performed significant due-diligence on – data centers, self-storage, outdoor-storage, manufactured housing, senior living, grocery-anchored retail, and life-science.

What is the impact of increased geopolitical tensions on the real estate market?

Geopolitical uncertainty has impacted the real estate sector, prompting investors to avoid markets tied to conflicts, trade disputes, sanctions or political instability. Investors are shifting cross-border capital towards perceived 'safe havens', such as stable residential markets or lower-risk locations with predictable legal systems. As the investable universe contracts, investment pressure – and consequently prices – in safe haven locations are likely to rise.

Besides these shifts, the geopolitical tensions are affecting the sectors attractiveness. The pandemic revealed global vulnerabilities and as protectionist tendencies are rising, securing domestic supply chains has gained importance. Similarly, the topic of defense is taking on a significantly larger role in public disclosure. With re- and nearshoring, manufacturing and industrial assets increasingly capturing investors' interest. As such, geopolitical instability does not solely lead to retreat, but can create opportunities in markets that align strategies focused on risk mitigation and adaptability.

Given the turbulent market, how should real estate investors consider sustainability?

After strong support in recent years, the closing of 2024 saw a cooling of sentiment towards environmentalism within real estate. This has been driven partly by the market downturn, with sustainability seen by some as an unaffordable luxury. That said, the link between climate change and real estate is stronger than many believe.

Physical climate risk is the most acute ESG impact for real estate investors. Political views are rendered irrelevant in the face of wildfires and cyclones. With extreme weather rising, mitigation is less an environmental consideration and more prudent a financial underwriting. Transition risk can be less tangible and therefore more flexible within budgets. Decarbonization payback is driven by investors, tenants and regulators. Sentiment varies widely between markets; in some, it has waned, in few have targets been abolished and in most, they remain, at worst, delayed.

Since inception, UGA — Real Estate has taken a forward-looking view toward sustainability. There is mounting evidence of long-term green premiums – higher prices paid for assets with enhanced ESG qualities (link) – that can't be ignored during due diligence. Our team has a dedicated ESG specialist, reporting to the investment committee and uses a proprietary ESG questionnaire for all current and future GPs. With sustainability factors incorporated into our financial due-diligence and ongoing monitoring, we believe acting and investing sustainably on behalf of our clients is both a moral and financial necessity.

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Footnotes:
[1] INREV real estate investment managers survey 2024.
[2] UBS Asset Management, Unified Global Alternatives (UGA), data as at 31 March 2025.